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Market Arrangements for Explicit Demand Response in the US & the EU

13th EU-US Energy Regulators' Roundtable
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Context

Live issue in the EU:

Should 3rd-party aggregators have to compensate suppliers when they reduce their customers' loads? If so, how much?

Settled in Order 745 (upheld in *EPISA*):

What should explicit demand response be paid? LMP or “LMP-G”?

Key principles

Principle 1: *All consumers have a right to choose not to use or pay for electricity when their real-time cost would exceed their real-time value, and society benefits from them being able to do so*

Principle 2: *Aggregators act as agents of small consumers, and in doing so they give society access to the economic benefits of efficient consumption decisions by those consumers*

Issues in play

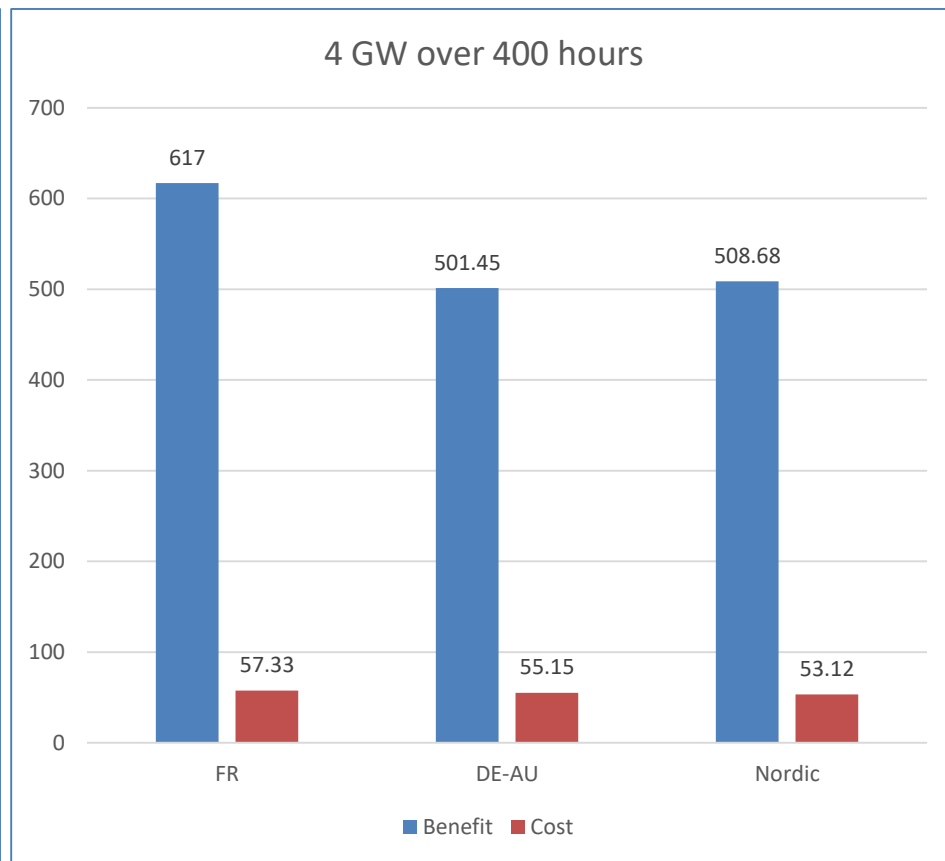
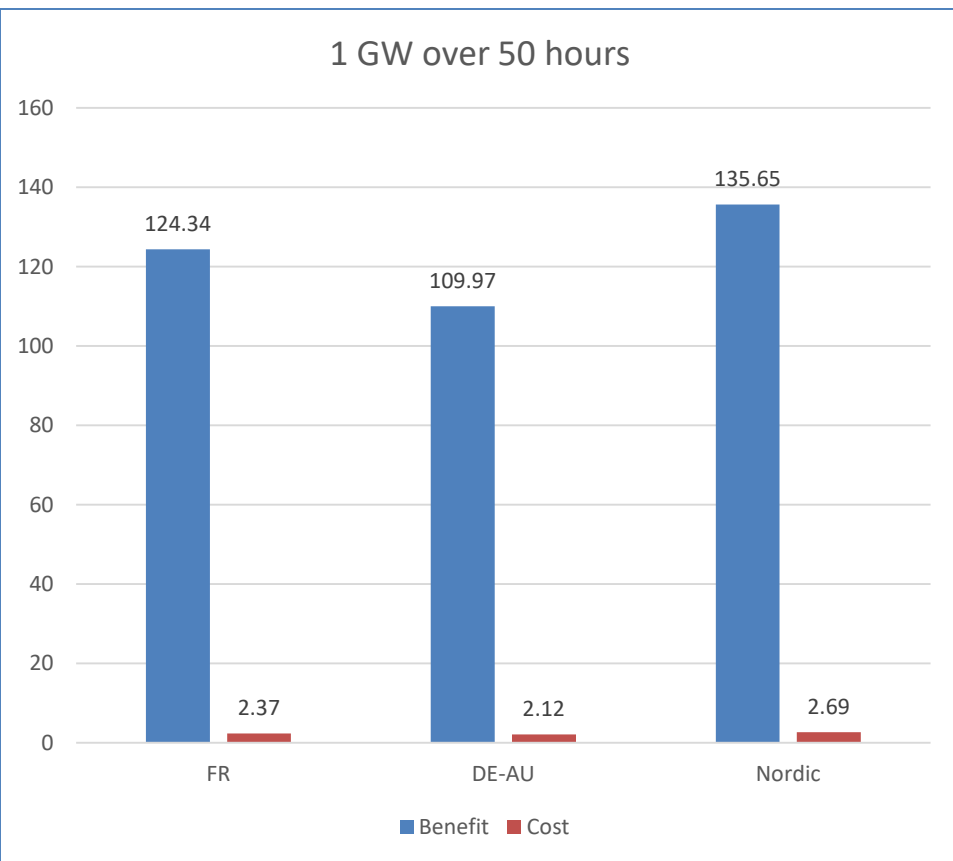
Issue 1: *Economic efficiency* – outcomes vs. “perfect world” with all consumers on dynamic tariffs & responding to real-time wholesale prices (relevant in both US and EU)

Issue 2: *Supplier compensation* – recovery of costs incurred by suppliers of consumers who (acting through aggregators) reduce demand (relevant only in the EU)

Live EU debate

- **COMM proposal parallels FERC decision: Explicit DR receives market-clearing wholesale price, no obligation to compensate suppliers**
- **Objectors' position conflates economic efficiency with keeping suppliers whole – the result is a suboptimal approach to both**
- **Optimal approach to addressing concerns about over-compensation (if appropriate) is the approach proposed by FERC intervenors**
- **Optimal approach to addressing residual supplier costs is through revenue retention**

2015/2016 supplier benefits & costs



About RAP

The Regulatory Assistance Project (RAP) is a global, non-profit team of experts that focuses on the long-term economic and environmental sustainability of the power sector. RAP has deep expertise in regulatory and market policies that:

- Promote economic efficiency
- Protect the environment
- Ensure system reliability
- Allocate system benefits fairly among all consumers

Learn more about RAP at www.raonline.org

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